

MINUTES
May 19, 2003
Stevens T Mason Building
6th Floor East Conference Room, Lansing, Michigan

NRC POLICY COMMITTEE ON FINANCE AND ADMINISTRATION

Investments
Vulnerabilities – Program for Partnership
Budget Update

PRESENT:

Commissioner Bill Parfet, Chair
Commissioner Frank Wheatlake
Director K. L. Cool
Administrative Services Deputy Kelli Sobel, DNR
Resource Management Deputy George Burgoyne, DNR
Financial Services Chief Joe Frick, DNR
Budget Development and Support Services Chief Sharon Schafer, DNR

OTHER ATTENDEES:

Steve Arwood, Michigan Natural Resources Trust Fund
Liesl Clark, Senate Democratic Staff
Dana Debel, Governor's Office Advisor, Environment
Emily Fleury, Governor's Office Research Analyst
Garrett Johnson, Nature Conservancy
Chris Meyer, Fund Evaluation Group Investment Consultant
Andy Pelt, Michigan Steelheaders
Jessica Runnels, Senate Fiscal Agency
Tom Benson, DNR Program Assistance and Review
Jim Dubbs, DNR Law Enforcement
Dawn Fedewa, DNR Budget and Support Services
Amy Henderson, DNR Financial Services
Tony Herek, DNR Parks and Recreation
Becky Humphries, DNR Wildlife
Bob Humphries, DNR Wildlife
Dennis Knapp, DNR Legislative Liaison
Mindy Koch, DNR Forest, Mineral and Fire Management
Ann LeClaire-Mitchell, DNR Wildlife
Kevin Nichols, DNR Budget and Support Services
Theresa Pohl, DNR Fisheries
Lowen Schuett, DNR Parks and Recreation
Jane Schultz, DNR Budget and Support Services

Kelley Smith, DNR Fisheries
Joe Taylor, DNR Forest, Mineral and Fire Management
Laura Willard, DNR Law Enforcement
Jim Wood, DNR Grants, Contracts and Customer Systems
Brad Wurfel, DNR Press Secretary

Chairman Parfet called the meeting to order at 9:03 a.m.

INVESTMENTS

Joe Frick summarized where the Department of Natural Resources' (DNR) investment funds are currently invested and how much DNR plans to spend each year. The Michigan Department of Treasury (Treasury) has a broad range of investment products, but has recommended that DNR initially invest our money through Vanguard, a highly regarded public mutual fund, because they have low administrative fees. The target ratio for most of our funds is 75%-25%. The more money we have set aside for reserves the more comfortable we can be in terms of equities without endangering a possible loss on corpus. **Kelli Sobel** stated the key is to start moving toward the target ratio as we get more into the reserve. In the Game and Fish Protection Trust Fund we have more flexibility because it provides a cushion.

Joe Frick summarized the Investment Statutory Changes that DNR proposed for consideration and comment to this Committee:

Merge the Lifetime License Reserve Fund (LLRF) into the Game and Fish Protection Trust Fund.

Merge the Michigan Civilian Conservation Corp Endowment Fund (MCCC) into the State Park Endowment Fund. The MCCC program benefits DNR, its participants and is a good program that we want to keep. **Chairman Parfet** said we will recommend this change to the full Natural Resources Commission (NRC) for approval and have the NRC recommend it for statutory change.

General recommendations that we need to look at all the different funds statutes to move toward basing them on the 5% methodology rather than on actual results each year.

Setting aside some revenue stabilization targets could be controversial. One advantage of having this in statute is providing stability and discipline as there will always be pressure to spend those funds.

George Burgoyne commented there is value to DNR to keep the LLRF as a separate account. **Kelli Sobel** said we need to keep this information separate within the trust because of federal reporting requirements.

Joe Frick stated that this investment plan can be changed and updated, so every year after year-end closing we will have an annual update on investments to review. **Chairman Parfet** stated we will place this on the Finance Committee's March 2004 agenda to look at how the assets have performed.

Chairman Parfet made a MOTION to recommend presentation of this investment strategy to the full NRC Committee. All members were in favor. None opposed.

FEDERAL AUDIT FINAL REPORT

Kelli Sobel said the Final Advisory Report was issued in February 2003 and DNR agreed to work on a Corrective Action Plan. The main concern to DNR is that the old 500 codes and what is eligible or not eligible has never been finalized. We will proceed with our best interpretation regarding the codes issue, without specific guidance from the federal government. DNR is not scheduled to be re-audited again until 2004-2005. **Kelli Sobel** acknowledged the following staff by presenting them with an appreciation certificate for their efforts toward resolving the federal audit: Rick Asher, Tom Benson, Jim Dubbs, Tim Fournier, Amy Henderson, Laura Willard and Judy Tkaczyk. **K. L. Cool** thanked Chairman Parfet and George Burgoyne for their efforts in regards to the federal audit. **Chairman Parfet** stated that much of the thanks goes to Kelli Sobel and Director Cool for their active participation in resolution of the federal audit. DNR has learned a lot from this audit and the agency is better for it.

LICENSE FEE AUTHORITY

Kelli Sobel stated that Representative Gretchen Whitmer has introduced a bill to move the parks entrance fee to the NRC. Hearings on this bill will begin in a couple of weeks. **Dennis Knapp** said this bill would give the NRC authority to set park entrance fees. This bill also includes a section that repeals the general fund requirement to the state parks budget. We are optimistic that this bill will also set the tone for game and fish, snowmobile and off-road vehicle fees.

Dana Debel said the Budget Office is dealing with 80+ bills and they are overwhelmed. Fee bills have been among the most challenging, however, they will move forward on these bills. **Chairman Parfet** said the overall plan is to grant total authority.

BUDGET UPDATE

Kelli Sobel reported DNR's budget bill is off of the House Floor and hearings have started in the Senate. Some changes to the bill include cutting the mapping initiative in half. Boilerplate was placed in our bill that if the entrance fee increase for parks passes then our administrative cuts will be restored. They have directly tied the administrative reduction to the fee increase for parks. The House put general fund money back in for parks. The House moved Payment in Lieu of Taxes (PILT) to Treasury and left it at the Governor's recommendation of \$2 an acre. We do not support PILT being at Treasury. Our recommendation is to keep PILT in the DNR because we manage the land. When meeting with the Senate we will ask for PILT to stay in the DNR and at \$2 an acre.

Kelli Sobel commented that on April 14, 2003 the Kiosks came on line. We had a press event at the end of April. **K. L. Cool** commented that Lt. Governor Cherry attended this press event and purchased his license on the Kiosk. **Kelli Sobel** stated that the Kiosks are a huge success and presented appreciation certificates to DNR staff that helped to achieve this: Jim Wood, Sharon Maynard and Bill Pemble. **Bill Pemble** said the usage has been 20% at the five terminals. The

highest usage of a Kiosk is at the Okemos Meijer store at 35% of their total sales. The only complaint is that the paper stock is so durable you have to tug on it to get it out of the machine.

Kelli Sobel commented that we have some things we are going to change which is the purpose of doing a pilot. Public Policy Associates is going to do a cost benefits analysis for us. Our main concern with the Kiosks and terminals is that this Committee made a recommendation that we seek a Broadband Authority (BBA) loan. We were two days away from going to the BBA board when the Attorney General's (AG) office told us we were not eligible to receive a BBA loan. The AG has ruled that no state agency can receive a loan from the BBA. We have a meeting scheduled with the Governor's office to discuss this issue. We have also sent a request to the Department of Management and Budget (DMB) to fund the Kiosks and terminals out of the Game and Fish Fund balance. We decided to continue on two tracks because if the BBA loan does not go through we cannot wait to replace the aging terminals.

VULNERABILITIES

Kelli Sobel presented the Vulnerabilities document.

LAND MANAGEMENT STRATEGY was presented to the NRC.

Kelli Sobel stated that we continue to support the Governor's position on PILT and maintain our position that only general fund should support PILT. We made a presentation to the Joint Senate Committee and we ask our constituent groups to continue to also make presentations in support of this. The NRC supports these changes. Michigan United Conservation Clubs and Trout Unlimited have also been very supportive on this issue. **Garrett Johnson** said the Nature Conservancy has not taken a formal position, but if they do they would likely support full payment of taxes.

Frank Wheatlake stated the NRC needs to keep this issue at the forefront and he has spoken to the Sportsman's and Boating Caucuses about it. He said Legislators were present at these meetings. **Dana Debel** stated that hearing from the NRC would be helpful to Legislators in understanding what the full scope of this issue is. **Kelli Sobel** said that Legislators would be helped by hearing from the Michigan Natural Resources Trust Fund (MNRTF) Board and MNRTF board members should attend a PILT hearing in support of DNR's position. **Steve Arwood** asked to be notified the next time the Legislature is going to meet on PILT.

Andy Pelt said the Michigan Steelheaders are actively promoting the importance of our programs and have spoken with both the House and Senate to put a Constitutional Amendment on the ballot to protect the Game and Fish Fund. Michigan Steelheaders host an annual reception to promote DNR programs.

The minutes from the March 21, 2003 meeting of the NRC Policy Committee on Finance and Administration were approved by the Committee.

Chairman Parfet stated that the Agenda for the next meeting, which will occur in September 2003, will be:

1. Parks Fees Increase
2. Investments Update
3. Payment in Lieu of Taxes (PILT) Update
4. Budget Update

Chairman Parfet adjourned the meeting at 10:45 a.m.

William Parfet, Chair
NRC Policy Committee on Finance
and Administration

Date

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